



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	HB0640	Title:	Limit deduction of qualified residential interest to fund Housing Montana fund
Primary Sponsor:	Noonan, Art	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$2,000,000	\$3,995,000	\$3,315,000
Other (Housing Fund)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
Revenue:				
General Fund	\$0	\$3,456,000	\$3,670,000	\$2,957,000
Other (Housing Fund)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$1,456,000</u>	<u>(\$325,000)</u>	<u>(\$358,000)</u>

Description of fiscal impact: This bill would cap the deduction for home mortgage interest beginning in FY 2011, which would increase income tax revenue to the general fund. In FY 2011, this bill would require a transfer of \$2.0 million from the general fund to the Housing Montana fund. In later years, it would equal the amount of additional income tax revenue from the cap, plus an inflation adjustment.

FISCAL ANALYSIS

Assumptions:

Department of Revenue:

- Beginning with tax year 2010, this bill would cap the itemized deduction for home mortgage interest. The caps for 2010 would be \$20,000 for a single taxpayer or married taxpayers filing a separate return, \$30,000 for a taxpayer filing as head of household, and \$40,000 for a married couple filing a joint return (see Technical Note 1). The caps would be adjusted annually for inflation.
- The income tax revenue estimating model was revised to add the caps on home mortgage interest deductions in this bill. The following table shows the resulting changes in tax liability:

Tax Year	Change in Tax Liability (\$ million)
2010	\$3.456
2011	\$3.670
2012	\$2.957
2013	\$4.556

3. The increased tax liability would translate into increased revenue when taxpayers receive smaller refunds or make larger payments with their returns filed after the end of each tax year. Thus, the increases in tax liability for tax years 2010 through 2013 would result in the same increases in general fund revenue for FY 2011 through FY 2014.
4. Beginning in FY 2011, this bill would require the state treasurer to make a transfer from the general fund to the Housing Montana fund, which is an enterprise fund of the Montana Board of Housing, based on the additional income tax revenue due to the cap. The transfer for FY 2011 would be the smaller of \$2 million or the increase in revenue for FY 2011. Since the actual increase would be more than \$2 million, the transfer to the Housing Montana fund would be \$2 million.
5. For FY 2012 and later years, the amount of the transfer would be the actual increase in revenue adjusted for inflation since 2009. The following table shows the changes in tax liability for tax years 2011 and 2012, the inflation factors for the corresponding fiscal years (FY 2012 and FY 2013) and the resulting transfers from the general fund to the Housing Fund (See Technical Note 2).

Tax Year	Additional Income Tax	Fiscal Year	Inflation Factor	Transfer to Housing Fund
2011	\$3.670	2012	1.0883	\$3.995
2012	\$2.957	2013	1.1211	\$3.315

6. Changes to tax forms required by this bill will be made as part of the annual update process with no additional costs to the Department of Revenue.

Department of Commerce (DOC):

7. The additional funds would be managed by existing staff with the assumption that the Housing Division's 2011 biennium budget request is approved as proposed.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
<u>Expenditures:</u>				
Transfers	\$0	\$2,000,000	\$3,995,000	\$3,315,000
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
<u>Revenues:</u>				
General Fund (01)	\$0	\$3,456,000	\$3,670,000	\$2,957,000
Department of Commerce				
<u>Expenditures:</u>				
Operating Expenses (Loans)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
<u>Funding of Expenditures:</u>				
Other (Housing Fund)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
<u>Revenues:</u>				
Other (Housing Fund)	\$0	\$2,000,000	\$3,995,000	\$3,315,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$1,456,000	(\$325,000)	(\$358,000)
Other (Housing Fund)	\$0	\$0	\$0	\$0

Long-Term Impacts:

1. Because of the inflation adjustment in Section 2, the difference between transfers from the general fund to the Housing Montana fund and the additional revenue to the general fund would grow over time.

Technical Notes:

1. Section 1 does not explicitly provide for married taxpayers filing a separate return. This fiscal note assumes that the intent is for these taxpayers to have the same cap as single taxpayers and that the Department of Revenue would clarify this through administrative rule. It would be better to have this stated explicitly in the bill.
2. Section 2 requires an annual transfer from the general fund to the Housing Montana fund based on the previous year's increase in general fund revenue due to the cap on the mortgage interest deduction. Income tax returns are due April 15, but taxpayers have the option of an extension until October 15, provided that tax due is paid by April 15. Timely filed income tax returns for a year are processed by early in November. The Department of Revenue would not be able to make a final determination of the additional revenue from the cap until this time. This fiscal note assumes that the Department of Revenue would make an estimate of the additional revenue before the end of the fiscal year, and that the Department of Administration would accrue that amount at fiscal year end. The liquidation of the accrual and the annual transfer would occur in November when the actual amount is known.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date